2010 BUDGET:

Historic Pension And Budget Reform To Give California Future Stability

"I will not sign a budget until we fix our broken systems. I will not sign a budget if we don't have pension reform and budget reform." (Gov. Schwarzenegger, Announcement of May Revised Budget, May 14, 2010)

This year, the Governor pledged to not sign a budget unless it included permanent pension reform and permanent budget reform. By standing up for these structural changes to the system, the Governor achieved real reform that will improve the state's long-term financial outlook and benefit Californians for years to come.

Pension Reform

This year's budget agreement makes significant changes to state pensions for new state employees. The budget agreement:

- **Rolls back SB 400:** The expansion of pension benefits adopted in 1999 as SB 400 will be rolled back for new employees.
- **Ends pension spiking:** Employee retirement rates will be based on the highest consecutive three year average salary as opposed to the single highest year.
- **Provides transparency:** The arcane assumptions made in establishing required pension payments have a major impact on the long-term cost of pensions and whether those costs are passed on to taxpayers for decades to come. Taxpayers deserve to know how these decisions are made. This legislation requires CalPERS, any time it adopts contribution rates, to submit a report to the Governor, Treasurer, and legislature that in plain language describes (1) the discount rate it uses to report pension liabilities and how those liabilities would be valued if a risk-free discount rate was used, (2) the investment return it assumes for projecting contributions and how those contributions would change if a lower investment return assumption was used, (3) the period over which it amortizes unfunded liabilities and how contributions would change if unfunded liabilities were amortized over a period equal to the estimated average remaining service periods of employees covered by the contributions, and (4) the market value of its assets and how that value differs from its chosen actuarial value for those assets. It will also require the Treasurer to evaluate and provide its opinion of the report to the legislature.

Specific changes to retirement formulas are as follows:

Retirement Category	Current Retirement Formulas	Proposed Formulas
Miscellaneous – First Tier	2% at Age 55 (2.5% at Age 63+)	2% at Age 60 (2.418% at Age 63+)
Miscellaneous – Second Tier	1.25% at Age 65+	1.25% at Age 65+
Industrial	2% at Age 55 (2.5% at Age 63+)	2% at Age 60 (2.418% at age 63+)
State Safety	2.5% at Age 55+	2% at Age 55+
Peace Officer and Firefighters, with the State, CSU, Legislature and Judicial Branch	3% at Age 50+	2.5% at Age 55+

Budget Reform

The budget agreement also means California voters will decide on a ballot initiative to create a rainy day fund for the state, to be used during years of economic crisis. This amendment forces Sacramento to save money in good years, to cover shortfalls in the bad years. If passed, this initiative would:

- **Make potential rainy day fund savings larger and make it harder to suspend an annual contribution.**

- The rainy day fund savings would go from 5 percent to 10 percent of General Fund Revenues.
- The state would have to make three percent payments into the rainy day fund, except in years of high deficit.
- Half of the annual payment into the rainy day fund could be used for one-time infrastructure and debt service.

- **Restrict the use of rainy day funds to rainy days.**
  - Funds would be used to cover a budget shortfall – up to the previous year's expenditures adjusted for inflation and population growth.
  - A 50%-50% regulator provision would prevent the legislature from spending all rainy day funds in a single year, or two.
  - If the rainy day fund exceeds 10 percent of General Fund revenue, annual payments to the fund would stop.
- **Capture unanticipated revenue for additional rainy day contributions.**
  - The Department of Finance would create a projection of expected revenue based on the state's last twenty years of revenue performance, and any revenue above that trend line would be put in the rainy day fund. Any above trend revenue over 10 percent of revenues could be used for one-time purposes.
  - Any new revenue needed to meet Proposition 98 obligations would be excluded, so that Proposition 98 will be fully funded without encroaching on funding for other programs.